

Message Text

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43

ACTION ARA-20

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 L-03 H-03 PA-03

PRS-01 USIE-00 RSR-01 SSO-00 NSCE-00 INRE-00 /133 W

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FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC IMMEDIATE 437

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E.O. 11652: N/A

TAGS: EFIN, BL

SUBJ: BOLIVIAN FISCAL PROBLEM

REF: STATE 135565

1. BEFORE COMMENTING ON PARA 4 REFTEL WE WOULD LIKE TO OFFER
SOME COMMENT ON PARA 3. IT SEEMS TO US TALK OF B/P CRISIS
LATER THIS YEAR OR EVEN IN 1974 WILL BE ACADEMIC IF GOB
REALLY SIGNS \$100 MILLION EUROPEAN BANK LOAN AS WE ARE
TOLD BY IMF REPRESENTATIVE AND CENTRAL BANK MANAGER VIZCARRA
IS VERY LIKELY WITHIN NEXT FEW DAYS. WE FULLY SUPPORT,
HOWEVER, IBRD IN ITS CALL FOR ENACTMENT WITHIN NEXT FEW
MONTHS OF TAX REFORM PACKAGE AND INCREASE OF CUSTOMS DUTIES
TO OR NEARLY TO PRE-DEVALUATION LEVELS. DECREE ALREADY
SIGNED BY CABINET COMES CLOSE TO DOING LATTER IF IMF
REPRESENTATIVE'S ANALYSIS IS CORRECT. WE FULLY SUPPORT
ADDITIONAL TAX ADMINISTRATION REFORMS BUT THINK IT INCREASINGLY
UNLIKELY THAT GOB CAN IMPROVE ON PRESENT REVENUE ESTIMATES
BY MORE THAN ABOUT \$B 50 MILLION THIS YEAR. WE ALSO DOUBT
THAT ANY OTHER TAX REFORMS (NOT INCLUDED IN PACKAGE ALREADY
SUBMITTED TO CABINET) ARE LIKELY TO BRING IN MORE THAN
ANOTHER \$B 50 MILLION THIS YEAR IF GOB DECIDES TO TAKE SUCH
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ADDITIONAL MEASURES. OUR SKEPTICISM BASED ON GOB MOVEMENT

TOWARDS ELECTIONS IN 1974 AND GOB'S NEED TO GAIN POPULAR APPEAL IN ADVANCE OF ELECTIONS. DESPITE THESE "REALISTIC" CONSIDERATIONS THAT MAY LEAD GOB TO RESIST OUR COMBINED PRESSURES TO TAKE CORRECTIVE FISCAL ACTION WE, NEVERTHELESS, BELIEVE, AS WE HAVE EXPRESSED REPEATEDLY IN PRIOR CABLES ENDING WITH OUR ENDORSEMENT OF THE PROPOSED AID LETTER TO PRESIDENT BANZER (LA PAZ 4188) THAT GOB MUST BE INDUCED TO TAKE THESE CORRECTIVE ACTIONS AS SOON AS POSSIBLE IF BOLIVIA IS TO CONTINUE TO RECEIVE THE HIGH LEVEL OF EXTERNAL ASSISTANCE THAT IT NOW ENJOYS.

2. RE REFTEL PARA 4, WE UNDERSTAND IBRD'S DESIRE TO PUSH FOR ARRANGEMENT WHICH IT BELIEVES WILL REDUCE ITS PROBLEMS IN 1) OBTAINING ADEQUATE PROJECT DEVELOPMENT; AND 2) ENSURING THAT LOCAL CONTRIBUTIONS ARE AVAILABLE FOR ITS LOANS. WE ARE SKEPTICAL, HOWEVER, THAT ARRANGEMENT DESCRIBED IN PARA 4 IS REALISTIC.

3. CONEPLAN NOW SERVED IN EFFECT BY TWO SECRETARIATS, THAT UNDER SECRETARY GENERAL OF CONEPLAN PRADO (WHICH IS STAFF OF EX-MINISTRY OF PLANNING) AND THAT UNDER MINISTRY OF FINANCE AS MINISTER OF FINANCE PRESIDES OVER CONEPLAN. THUS, PRADO'S SECRETARIAT IS ALREADY IDENTIFYING AND HELPING TO PREPARE PROJECTS TO LIMITED EXTENT. PERHAPS THIS SECRETARIAT SHOULD BE STRENGTHENED, BUT WE BELIEVE IT IS UNREALISTIC TO EXPECT IT PREPARE PROJECTS. WE BELIEVE MAIN BURDEN OF PROJECT PREPARATION WILL REMAIN WITH VARIOUS MINISTRIES AND ENTITIES WHICH WILL HAVE TO CARRY OUT PROJECTS AND THAT MOST ANY CENTRAL GOB AGENCY CAN DO (SUCH AS PRADO'S SACRETARIAT) IS (A) SET GUIDE-LINES FOR PROJECT PREPARATION; (B) PROVIDE TECHNICAL ASSISTANCE TO VARIOUS ENTITIES PREPARING PROJECTS; AND (C) HELP ESTABLISH PRIORITIES AMONGST PROPOSED PROJECTS AND THOSE UNDER PREPARATION. WE WOULD HOPE CONEPLAN WOULD NOT INTRODUCE IT SELF AS ANOTHER BUREAUCRATIC OBSTACLE INTO PROJECT IMPLEMENTATION.

4. WE DO NOT BELIEVE ANY GOVERNMENT AGENCY UNDER THE POLICY GUIDANCE OF CONEPLAN WOULD BE TRULY AUTONOMOUS AND, THEREFORE, SUGGEST THAT PRADO'S EXISTING SECRETARIAT BE LIMITED OFFICIAL USE

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STRENGTHENED TO MEET IBRD'S NEEDS.

5. WE SEE SOME VALUE TO EARMARKING PORTION OF ADDITIONAL REVENUES TO ENSURE LOCAL CONTRIBUTION AVAILABILITIES AND, THEREBY, HELP ENSURE SMOOTH AND STEADY DEVELOPMENT AND DISBURSEMENT IFI LOANS. WE CONCERNED, HOWEVER, THAT SUCH A STEP WOULD CAUSE IFI'S TO LOSE INTEREST IN BROADER PROBLEM OF FISCAL DEFICIT WHICH MIGHT NOT BE SOLVED BY MEASURES

LIKELY TO BE TAKEN SOON. WE ALSO NOTE THAT WE HAVE BEEN ADVISING GOB TO REDUCE NUMBER OF EARMARKED TAXES TO PROVIDE MORE AMPLE ROOM FOR FLEXIBLE AND SENSIBLE FISCAL MANAGEMENT. WE GRANT, HOWEVER, T JT, AT LEAST, CONCEPT OF SEPARATE CAPITAL BUDGET WITH SUFFICIENT FUNDS ALLOCATED TO LOCAL CONTRIBUTIONS SHOULD BE PRESSED ON GOB. WE ARE RELUCTANT TO GRANT THAT IN BOLIVIAN CONTEXT EARMARKED TAXES FOR LOCAL CONTRIBUTION MAY TURN OUT TO BE MOST REALISTIC SOLUTION.

6. CONEPLAN WAS GIVEN EXTENSIVE POWERS UNDER STABILIZATION DECREE (10550) TO CONTROL IF NOT MANAGE ALL CENTRAL GOVERNMENT INTERNAL AND EXTERNAL RESOURCES. ARTICLE 32 REQUIRES CONEPLAN AND MINFIN TO PRESENT ANNUALLY DRAFT INVESTMENT AND FOREIGN EXCHANGE BUDGETS FOR CENTRAL GOVERNMENT, PUBLIC ENTERPRISES AND DECENTRALIZED INSTITUTIONS. EXECUTIVE TO APPROVE BUDGETS ONLY AFTER CONEPLAN HAS RENDERED ITS JUDGMENT. ARTICLE 34 PREVENTS ANY STATE ENTITY FROM INITIATING CONTACTS, SELECT OR NEGOTIATE EXTERNAL CREDITS, INCLUDING SUPPLIER CREDITS WITHOUT PRIOR CONEPLAN AUTHORIZATION. ARTICLE 37 GIVES CONEPLAN THE RIGHT TO VETO ANY PERSONNEL INCREASES IN THE PUBLIC SECTOR. ARTICLE 38 REQUIRES CONEPLAN TO ANALYZE PUBLIC SECTOR ENTERPRISES AND ENTITIES AND TO ADOPT MEASURES TO INCREASE THEIR EFFICIENCY, PRODUCTION AND YIELDS SO THAT THEY MAY CONTRIBUTE TO ECONOMIC DEVELOPMENT. THESE POWERS SEEM TO BE SUFFICIENT TO MEET MOST OF IBRD'S PURPOSES UNDER PARA 4(B) REFTEL. WE BELIEVE ULTIMATE BUDGET POWER, INCLUDING OVER INVESTMENT BUDGET, MUST REST WITH MINFIN AND EXECUTIVE AND NOT BE VESTED IN A "SO CALLED" AUTONOMOUS AGENCY. AT PRESENT TIME WE ARE UNHAPPY THAT MINFIN DOES NOT APPEAR TO BE APPLYING WHAT WE WOULD CONSIDER TO BE A GOOD SENSE OF PRIORITIES IN ALLOCATING FUNDS FOR EXPENDITURES WHETHER FOR CURRENT OR INVESTMENT EXPENDITURES.

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